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A subsidiary of Pinnacle West Capital Corporation



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October 24, 2005

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007-2996

Re: PLAN FOR ADMINISTRATION AND APPROVAL OF POWER SUPPLY
ADJUSTOR SURCHARGE DOCKET No. E-01345A-03-0437 AND
E-01345A-05-0526

Dear Sir/Madame:

Pursuant to the Procedural Order dated September 14, 2005, Arizona Public Service Company ("APS") hereby files its Rebuttal Testimony for Peter Ewen in the above referenced Dockets.

If you have any question please contact me.

Sincerely,

Justin H. Thompson
Manager
Regulation, Policy & Analysis

JHT/bec

cc: Docket Control (Original, plus 15 copies)
Parties of Record

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REBUTTAL TESTIMONY OF PETER M. EWEN

On Behalf of Arizona Public Service Company

Docket No. E-01345A-05-0526

&

Docket No. E-01345A-03-0437

October 24, 2005

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1 **REBUTTAL TESTIMONY OF PETER M. EWEN**
2 **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**
3 **(Docket No. E-01345A-05-0526 & E-01345A-03-0437)**

4 I. INTRODUCTION

5 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

6 A. My name is Peter M. Ewen. My business address is 400 N. 5th Street, Phoenix,
7 Arizona, 85004.

8
9 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

10 A. Yes.

11
12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. I am responding to the testimony of Staff witness William Gehlen filed on
14 October 17, 2005.

15 II. SUMMARY

16 **Q. COULD YOU SUMMARIZE YOUR REBUTTAL TESTIMONY?**

17 A. Yes. APS agrees with Mr. Gehlen's analysis and principal conclusions. APS
18 would seek clarification of Staff's suggestion that APS quantify and file monthly
19 the power replacement costs, if any, associated with all unplanned outages
20 regardless of type of unit or duration.

21 III. REPLACEMENT COST REPORTING

22 **Q. DOES THE COMPANY GENERALLY ACCEPT THE PSA REPORTING MODIFICATIONS RECOMMENDED BY STAFF WITNESS GEHLEN?**

23
24 A. Yes. Mr. Gehlen recommends that the Company change its reporting related to
25 three issues: (1) accelerate the filing of the PSA reports to no later than 30 days
26 following the reporting month; (2) add information on the replacement power

1 costs for unplanned outages, and; (3) provide updated under/over-collected PSA
2 balance projections for the following 12 month period. We agree that adding this
3 information and making it available on a timelier basis will help Staff in their
4 efforts to complete "quicker and more in-depth evaluations" of the PSA
5 balancing account amounts and trends.

6 **Q. DO YOU BELIEVE STAFF'S RECOMMENDED REPORTING**
7 **MODIFICATIONS SHOULD BE CLARIFIED?**

8 A. Yes. Specifically, I recommend that the Commission clarify what will be
9 provided on outage costs. Staff's recommendation (Staff witness Gehlen's Direct
10 Testimony at page 12, lines 19 - 21) could be interpreted as requiring a
11 calculation of outage costs for every APS generating unit irrespective of the
12 length of the outage, its lack of impact on APS operations or its materiality in
13 terms of cost.

14 I believe we can satisfy Mr. Gehlen's recommendation efficiently and
15 effectively by providing in a standard format the replacement power costs of
16 unplanned outages for our power plants aggregated for the month by resource
17 type: nuclear, coal, and the gas combined cycle units. These three types of units
18 normally account for 97% of APS generation output during a typical summer
19 month. I would note that the current report does provide outage information
20 concerning the type and duration of both planned and unplanned outages, as
21 well as the status (complete or in progress). The additional cost report will
22 include the energy lost to unplanned outages, the gross replacement costs
23 incurred in replacing that energy, the fuel savings from the plants that are
24 incurring the unplanned outages, and the net replacement power costs resulting
25 from the gross replacement costs less the fuel savings. Also, if Staff wishes to
26

1 investigate the particular details surrounding an outage or set of outages, those
2 details will also be made available.

3 **Q. ARE THERE OUTAGE REPLACEMENT COSTS FOR THE GAS**
4 **STEAM AND COMBUSTION TURBINE UNITS?**

5 A. Occasionally, but these amounts are typically very small. For the April through
6 September period this year, the sum of all outage net replacement costs for the
7 gas steam units was \$4,000. We do not even calculate the outage replacement
8 costs for combustion turbines. These units have the highest heat rates of our
9 generation fleet and are for many months of the year marginally economic
10 relative to purchases from the market. With the addition over the last few years
11 of so many new combined cycle units with heat rates of around 7,000 Btu/kWh
12 (compared to combustion turbine heat rates in excess of 12,000 Btu/kWh), these
13 units have seen their capacity factors drop and are being used primarily for
14 reliability purposes rather than economic energy. Any differential in cost
15 between buying replacement power for these units and the fuel cost avoided by
16 not having them dispatched has proved in recent years to be very small. And as I
17 indicated previously, if there were outages at these units that appeared to Staff
18 from the monthly PSA reports to be unusual, Staff could specifically request the
19 same sort of outage replacement cost information as will be provided on a
20 routine basis for our other units.

21 **IV. CONCLUSION**

22 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

23 A. Yes. APS believes Staff has made a number of recommendations that will
24 improve the flow of information between the Company and the Commission on
25 a timelier basis. With the clarification on outage costs reporting discussed in my
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rebuttal testimony, APS fully supports the Staff recommendations in Mr. Gehlen's testimony.